

City of Bethlehem Tax Bureau

EMPLOYER INSTRUCTIONS FOR WITHHOLDING, REPORTING, AND PAYING 1% LOCAL EARNED INCOME TAX (EIT)

INTRODUCTION: The Earned Income Tax (EIT) is a local income tax levied by municipalities and/or school districts. The maximum rate is 1% (subject to sharing provisions between coterminous municipalities and school districts), which is the rate levied by all the taxing jurisdictions that the City of Bethlehem represents.

DISCLOSURE STATEMENT: You are entitled to receive a written explanation of your rights with regard to the audit, appeal, enforcement, refund and collection of local taxes by calling the City of Bethlehem Tax Bureau at (610) 865-7022 during the hours of 8 a.m. and 4:30 p.m., Monday through Friday.

STATUTORY WITHHOLDING REQUIREMENT: The requirement of withholding the 1% local earned income tax (EIT) is imposed on every employer having an office, factory, workshop, branch, warehouse, or other place of business within any of the City of Bethlehem's contracting member municipalities (see listing in next section) who employs one or more persons, for a salary, wage, commission or other compensation.

MEMBER MUNICIPALITIES: The City of Bethlehem Tax Bureau is the collecting and administrating agent of the earned income tax for the following municipalities and/or their coterminous school districts.

Northampton County
City of Bethlehem
Borough of Freemansburg

Lehigh County
City of Bethlehem

EMPLOYER IDENTIFICATION NUMBER: Every employer will be assigned an unique identification number. This number must be used on all correspondence with the City of Bethlehem Tax Bureau.

WITHHOLDING DOCUMENTS: The following documents are used with transmitting and reporting withheld Earned Income Tax:

Form 501 (Employer's Depository Receipt) - This form, along with the EIT withheld, is payable monthly, 30 days after the end of the month in which the tax was withheld. Otherwise, Form 511 and the withheld tax is due quarterly (30 days after the close of the calendar quarter).

Form 511 (Employer's Quarterly Earned Income Tax Return) – This form, along with the EIT withheld is due quarterly (30 days after the close of the calendar quarter). The following information must be reported: employee's name, SSN, home address and amount of tax withheld. Note: Employers with 250 or more employees are required to submit this report via magnetic media in lieu of paper 511 Forms. Employers with less than 250 employees also may do the reporting via magnetic media. For more information on this topic see the next section.

Form 512 (Employer's Annual Reconciliation) - This form is due along with copies of the W-2's 60 days after the calendar year or 60 days after the termination of the business, whichever occurs first.

Form W-2 (Employee's Wage and Withholding Statement) - Note: Employers reporting 250 or more W-2's are required to submit the W-2 information via magnetic media in lieu of paper W-2 Forms. Employers reporting less than 250 W-2's also may do the reporting via magnetic media. For more information on this topic see the next section. W-2 forms must be completed and returned along with Form 512. Remember to complete box 19 (Name of Locality) on the W-2. The name of the municipality (township, borough, or city) and the county the employee worked in during the tax year should be placed in this box.

REPORTING INFORMATION VIA MAGNETIC MEDIA: A regulation change initiated in tax year 2000 requires that employers remitting for 250 or more employees must report the information via magnetic media instead of paper forms. For more information on this topic please contact the Tax Bureau at (610) 865-7022.

EARNED INCOME SUBJECT TO WITHHOLDING: Earned income includes salaries wages, commissions, bonuses, incentive payments, fees, tips and other compensation received by a person or his personal representative for services rendered, whether directly or through an agent, and whether in cash, property, or the use of property. Compensation paid in any medium other than cash is valued at fair market value. We have found, and continue to find, payments and benefits to employees that are incorrectly being excluded from local wages reported on W-2's by employers. When excluded from local wages, the earned income tax is also not being withheld on these items. Compensation subject to the Pennsylvania Personal Income Tax and earned income are similar in many respects. The only three differences are that 1) the state does not tax personal use of an employer's property (i.e., cars, planes) while we do at the local level, 2) the state taxes both the employer's contribution and income of a premature retirement distribution while we tax only the portion representing the employer's contribution; and 3) the state does not tax the fair market value of employer provided dependent care benefits but we do.

The last section of this information sheet lists popular employee benefits and other types of compensation showing whether they are, or are not, taxable at the earned income tax level. If you have a particular type of benefit or compensation that is not included in this list, please contact the City of Bethlehem Tax Bureau at (610) 865-7022 and we will provide you with an answer.

In all cases below, if a type of compensation must be included in local wages the earned income tax must be withheld on the value of that compensation and vice versa.

Severance Payments: Payments commonly referred to as severance or termination pay (including golden parachute payments) are taxable.

Employee Contributions to 401(k), 403(b), 408(k) (6), 457, & 501 (c) 18) (D) Plans and Simple Retirement Account: Employee contributions to these and other similar type plans, whether or not paid through a salary reduction program, are not excludable from local wages and are subject to withholding.

Reimbursement for Expenses: You must report all reimbursements and allowances (including moving and education) paid employees unless:

- The expenses that you reimburse are allowable business expenses (allowable business expenses for earned income tax purposes are the same as for the Pa. Personal Income Tax); and
- Your employees are required to, and do, account for these expenses to you; and
- You reimbursed your employees in the exact amount of the allowable business expense.

A fixed mileage allowance or a per diem living expense allowance that does not exceed applicable Federal limits also is not reportable compensation as long as the employee accounts to the employer as to the where, when, and why of the expense.

Educational Assistance Plans (EAP's): All payments made to employees, or on the employee's behalf, for education costs are taxable unless the education expenses would qualify as an allowable business expense using the guidelines of the Pa. Personal Income Tax. Free tuition provided to the employees, or dependents of employees, of educational institutions constitutes taxable compensation.

Dependent Care Benefits: Employer payments made for employees' dependent care and the fair market value of employer provided dependent care benefits are taxable.

Incentive Stock Option Plans: Taxable when the option has an ascertainable market value and no restrictions. Taxable portion is market value at the time they became taxable over the cost paid, (or that must be eventually paid) to obtain the stock.

Cafeteria or Flexible Benefit Plans: Employer or employee contributions to a cafeteria plan or flexible benefit plan are included in local wages to the extent the employee could have elected taxable benefits (e.g., cash). Note: the change in the way Pennsylvania is taxing these for their personal income tax (retroactive to 1/1/97) does not apply to the 1% local earned income tax.

Non-Cash Fringe Benefits: The fair market value of compensation in the form of property, or for the use of property, must be included in local wages.

Group Legal Services: The value of group legal services provided at the employer's expense must be included in local wages.

Group Term Life Insurance: No portion of group term life insurance premiums, regardless of the amount of coverage, should be included in local wages if the coverage is on an employee.

Prizes and Awards: The fair market value of prizes and awards to employees are includable in local wages if they are given as part of an incentive program or the recipient was required to render any services as a condition of receiving the prize or award.

Vacation and Holiday Pay: Vacation and holiday pay must be included in local wages. Sick/Disability Pay: Employer paid sick or disability pay is includable in local wages to the extent it must be included in State wages.

Retirement Distributions: The City of Bethlehem Tax Bureau uses the same criteria as the Pennsylvania Personal Income Tax (PIT) for determining whether a retirement distribution is non-taxable. In the event a premature retirement distribution is taxable we differ from the PIT in that we only tax the portion of the distribution that represents the employer's contribution. The return of the employee's previously taxed contributions and the income received on the account are not includable in local wages.

Health Insurance Premiums: Health insurance premiums paid by an employer for an employee are excluded from local wages including those premiums paid on behalf of a more than 2% shareholder-employee of an S Corporation.

Medical Savings Accounts (MSA's): Employer contributions to an employee's MSA (or an employee's family member's MSA) are excluded from local wages and are not subject to withholding providing:

- the employer payment is not pursuant to a salary reduction program, and
- the employee is restricted to using such funds for medical purposes only, and
- the employer places the payment directly into the plan (if the employee has any discretionary control, the payment would be taxable).

Any contributions made by an employee (this includes through a salary reduction program) are not excludable.

Adoption Benefits: Employer provided adoption benefits must be included in local wages and are subject to withholding.